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UNITED STATES DISTRICT COURT
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      SOUTHERN DISTRICT OF NEW YORK
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      BETSY FEIST, Individually, and
      on behalf of all others
 3
      similarly situated,
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                     Plaintiff,
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                 V.
                                               11 CV 5436 (JGK)
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      RCN Corporation and PAXFIRE,
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      INC.,
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                     Defendants.
9
                                                New York, N.Y.
                                                January 31, 2012
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                                                5:00 p.m.
      Before:
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                            HON. JOHN G. KOELTL,
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                                                District Judge
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                                 APPEARANCES
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      MILBERG, LLP
           Attorneys for Plaintiff
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      BY: SANFORD DUMAIN
           PETER SEIDMAN
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           MELISSA CLARK
      REESE RICHMAN
18
           Attorneys for Plaintiff
      BY: KIM RICHMAN
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      BINGHAM McCUTCHEN
           Attorneys for Defendant RCN Corporation
21
      BY: PETER NEGER
           MATTHEW CARE
22
      ANDREW GROSSO & ASSOCIATES
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          Attorneys for Paxfire, Inc.
     BY: ANDREW GROSSO
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(In open court)

THE COURT: All right. Feist against RCN, parties tell us who they are, please.

MR. DUMAIN: Sanford Dumain, Peter Seidman and Melissa Clark, from Milberg, LLP for the plaintiff. And your Honor, I would also like to bring to the Court's attention that the plaintiff, Betsy Feist, is also in the courtroom this afternoon.

MR. RICHMAN: And Kim Richman from Reese Richman on behalf of Ms. Feist.

THE COURT: OK.

MR. NEGER: Peter Neger from Bingham McCutchen on behalf of RCM Telecom Services, and with me is my colleague,

MR. GROSSO: Andrew Grosso for Paxfire.

THE COURT: All right. I have a flurry of motions before me. There's plaintiff's motion to dismiss Paxfire's counterclaims, Paxfire's motion to amend its counterclaims, and there's a motion by the plaintiff for Rule 11 sanctions directed to the original counterclaims. This of course -- oh, and then we have defendant Paxfire's motion to strike two paragraphs in the complaint. This follows up the motion by defendant counterclaim Paxfire to extend time to file exhibits, which I granted, and counterclaim plaintiff Paxfire's motion for leave to consolidate its reply to opposition of

counterclaim defendant Betsy Feist to counterclaim Paxfire's motion for leave to amend and its opposition to motion of counterclaim plaintiff Betsy Feist for sanctions pursuant to Rule 11, and I granted that motion.

I should point out really at the outset that the flurry of motions in this case is really unnecessary, and the level of vitriol that oozes through the motion papers is unnecessary. This is my first opportunity to talk to you all, and I don't expect to see it again. So when you do motion papers before me, you can cut out the invective against each other and just give me the motions. I also expect the lawyers to cooperate in the case before me. A little cooperation would have eliminated some of these motions and saved all parties a lot of lawyer time as well as a lot of grief for yourselves.

You want to consolidate some things, a letter is perfectly fine or a stipulation. A motion? It would be common for parties to agree on such things as amendments and have motions to dismiss directed against an amended complaint or against an amended counterclaims. But I have this set of motion papers before me, and I also have a proposed scheduling order, which you all submitted to me, and I am prepared to listen to anything that the parties would like to tell me in connection with the motions before I dispose of them from the bench.

I have read the papers, plainly, so anything that the

parties would like to tell me on the motions, you are welcome to do that. So these motions really are between the plaintiff and Paxfire. RCN has stayed above the fray, I believe.

So Mr. Dumain.

MR. DUMAIN: Thank you, your Honor.

I will be brief, since your Honor has indicated that you read the papers and are prepared to rule. The only thing I would like to point out to the Court in connection with the motions that have been made is, your Honor, I have been practicing for almost 30 years and I can represent to the Court this is the first time I have made a motion under Rule 11.

I think this case --

THE COURT: One too many.

MR. DUMAIN: Your Honor, respectfully --

THE COURT: Anything you say to me I accept is with respect, until you give me cause to think that that's not true.

MR. DUMAIN: Understood, your Honor.

As your Honor knows from reading the papers, the reason for the motion actually is quite simple, Ms. Feist filed a complaint seeking redress under a federal statute and various state common law. In response to that complaint, a counterclaim was filed against her by Paxfire asserting, without any basis at all, that she was somehow part of some conspiracy to destroy Paxfire's business.

The submission that we made has demonstrated without

question that there was no basis for that, there was never any basis for that, it was merely to intimidate the plaintiff to go away. And when a claim is filed with that kind of malice, we believed the motion was warranted. And it's as simple as that. And when we see from the response to the motions — the story that Paxfire has is a moving target. Initially, they claim that Ms. Feist —

THE COURT: Yes, but of course, you resisted their motion to amend their counterclaims, and you made it clear that your Rule 11 motion was directed to the original counterclaims. You don't know what they're going to say in the amended counterclaims, which whatever counterclaims they file might be amended again, and rather than wait to see what the amended counterclaims would finally be, if they are filed, you made it quite plain that because they didn't withdraw their original counterclaims, even though they sought leave to amend, that you wanted Rule 11 sanctions for the counterclaims even though they were being withdrawn.

MR. DUMAIN: Your Honor, there's a mistake in your Honor's understanding of what transpired. When Paxfire moved to amend its answer on the counterclaims, it attached, as it's required to do by the federal rules --

THE COURT: No, it attached proposed amended counterclaims. And when I grant them the opportunity to file amended counterclaims, I will make it quite clear to them that

they have the opportunity to make sure that any amended counterclaims that they file take into account that there are challenges to any good faith basis to make such counterclaims, and any such counterclaims had best be made with a sufficient basis in fact and law, and if they have no such basis, they shouldn't file them. And you can file your Rule 11 cautionary letter and 21-day notice to them when they file amended counterclaims, if they file amended counterclaims. Perhaps you have sufficiently deterred them from filing such counterclaims. But I'm under no misconception that your Rule 11 motion said that it was directed at the original counterclaims.

MR. DUMAIN: That is correct, your Honor.

The fact that we opposed the motion to amend the counterclaim was based on the simple fact that we believed — and the standard is the same as a 12(b)(6) motion would be — we believed the counterclaim would be futile because it does not state a claim. I think the law is clear that that's a proper and common reason to oppose to amend a counterclaim.

THE COURT: The law is clear, though, that if I were to grant a motion to dismiss right out of the box, a 12(b)(6) motion to dismiss, that it normally should not be with prejudice, it should be without prejudice.

So you say well, gee, their motion to amend what they were attaching was itself insufficient. Well, that leaves us in the position that even if you are right that what they're

offering in their motion to amend is insufficient, I still shouldn't dismiss their counterclaims with prejudice because it's the first time and they should be given an opportunity to amend. They ought not be dismissed with prejudice when they haven't been given an opportunity to amend. You say well, this particular amendment would be insufficient, but that doesn't mean that they couldn't have a valid counterclaim which hasn't yet been pleaded.

The courts frown on first round motions to dismiss with prejudice. And Paxfire argues that it's been effectively destroyed. You say: But not because of what the plaintiff did. And they say that there's sufficient indications -- I don't say it's correct at all -- that the plaintiff participated in that. And you say it's not right.

OK. They should at least be given the opportunity to determine whether they can plead counterclaims. If they fail to plead counterclaims and you make another motion to dismiss the counterclaims, then that motion to dismiss will be granted with prejudice because they have had every opportunity to plead, and then it will be granted with prejudice. But simply multiplying the proceedings doesn't help. Normally a motion to dismiss is granted without prejudice because a party should at least be given the opportunity to replead.

Go ahead.

MR. DUMAIN: Your Honor, I understand everything your

Honor just said, and I agree with you as a general proposition when motions to dismiss the first time around are granted they're frequently granted with leave to amend. I didn't mean to suggest in our papers that we don't recognize that fact.

We simply filed the opposition because under the rules when there's a motion to amend a complaint, as Paxfire followed, a proposed amendment is attached. It's not unusual and it's not without support for a party to say in that situation: But your Honor, you shouldn't grant the motion to amend because it's futile. Then the standard is basically a 12(b)(6) standard.

So I understand what your Honor is saying.

effort at amendment fails, it doesn't follow as a matter of law that the first time that the Court has had an opportunity to review the papers, the original motion to dismiss, the motion to amend, before the Court has commented at all on the papers, that right at the outset the defendant who attempted to file counterclaims would be told sorry, that's it. Or not even sorry, that's it, your counterclaims dismissed with prejudice with no opportunity to amend, period.

MR. DUMAIN: I understand. My only point, your Honor, is there have been plenty of instances in this court and in other courts within this circuit where judges have said either the first instance no, your claim is so out to lunch that I'm

not even going to let you amend, that has happened, and other instances where the court has said there is a proposed amendment, no, I'm not going to allow you to amend. And that has gone up to the Second Circuit on an abusive standard and that has been affirmed very frequently.

I understand what your Honor said. I understand where your Honor is coming from. I will not trying to belabor it.

I'm not trying to change your Honor's mind on this. I apologize if your Honor thought there was too much motion practice. That was certainly not our intent. But I don't think that we multiply the proceedings by doing it this way, because if we merely stipulated, fine, file your amendment, and we made a motion to dismiss, I assume it would have been what they filed as the proposed amendment. We would have made our motion to dismiss, and it would have been the same motion practice and we would be in the same place.

So I understand what your Honor is saying, I just wanted to explain what our thinking was. The last thing I was thinking was wanting to multiply proceedings here, since that's what we claim that Paxfire has done. And the last thing I want to do the first time I'm before your Honor is give you the impression that I'm not the kind of lawyer who can cooperate with his adversaries, because that's not true. And I was very pleased this morning to be able to fax to your Honor a proposed schedule that we were able to agree on, and rather promptly and

with good cooperation on both sides.

So I think I will you find going forward, even though we may not agree on the facts of the merits, but that this is a case that the lawyers are willing to cooperate.

THE COURT: All right. Thank you.

Mr. Grosso.

MR. GROSSO: Thank you, your Honor.

I mostly wish to address the motion for leave to amend. I have reduced the number of counts from seven to four, they are two counts of tortious interference with either contract or business relationships. There is the necessary specificity as to how the relationships were damaged, as well as with the requisite allegations of the essential elements. The same is for two counts of defamation, one slander and one libel, as well as damages. Paxfire certainly has been damaged. It is a shell of what it once was, and there's only one full-time employee left at Paxfire.

With regard to the Rule 11 motion, I think I have -THE COURT: Before you leave that, the plaintiff says
that the plaintiff was not responsible, the plaintiff did not
conspire, aid, abet any false statements, and that the
allegations in the counterclaims are insufficient.

With respect to claims of defamation, they plainly have to be pleaded with particularity as to what the defamation was and what the plaintiff did. The plaintiff says that even

your amended counterclaims are insufficient, and that even the amended counterclaims wouldn't survive a Rule 11 motion.

As I told Mr. Dumain, I intend to give you an opportunity to amend. You're not bound by the proposed amended counterclaims that you attached to your papers. And the standards that apply to the elements of claims of tortious interference are different from the elements of the claims that applied to the elements of the claims of defamation.

You say that your amended counterclaims survive.

Mr. Dumain says they're futile. This will be at least your third opportunity, if you take it, to file amended counterclaims, because I'm not holding you to the amended counterclaims that were attached to your motion to amend. When you file amended counterclaims, will those be as good and as —will they plead everything that you have to resist a motion to dismiss?

MR. GROSSO: They will -- the answer is yes.

THE COURT: All right. So you're not going to respond to a motion to dismiss those counterclaims with another request to file amended counterclaims.

MR. GROSSO: My intent was to stand on these. However, if the Court gives me an opportunity, more time has passed, we have learned more, we'll be happy to submit what I will call, without intending to jest, amended counterclaims, without asking the Court to rule on the first amended

counterclaims.

THE COURT: But I'm saying whatever you file in terms of amended counterclaims, if there's a motion to dismiss those counterclaims, you're not going to ask for another opportunity to amend, are you?

MR. GROSSO: Not unless something comes up that is really spectacular. And I think I have my -- we haven't started discovery yet, and for that reason, I am not sure what else will arise. But I think that, based upon what I know now, and based upon the allegations they made, that these counterclaims survive. And if the Court finds that they're not sufficient, absent my learning something later, the answer is no.

THE COURT: All right. Because if the amended counterclaims are dismissed for failure to state a claim, they will be dismissed with prejudice for failure to state a claim — third opportunity to state a claim.

All right. Go ahead.

MR. GROSSO: With regard to the Rule 11 motion, the Court has obviously read it. I have little more to add. I think that Paxfire and myself have conducted as thorough an investigation as we could without conducting further discovery. I personally have been in touch with people at EFF, people I have known for many, many years, and learned of the relationship between EFF and the firms that are here

representing Ms. Feist. I have also, in addition to what is in the papers, learned of a number of lawsuits around the country involving EFF, and involve firms here, which make it clear that there is a connection that EFF uses these firms in order to pursue their policy issue.

Here, unfortunately, the allegations made by Ms. Feist in the lawsuit as well as by EFF were false, but they were so damaging that Paxfire has effectively been destroyed. I think that qualifies for both defamation and the damages of at least \$10 million that we have lost with an offer that was about to come down by a matter of a few days. And also the tortious interference where there was the intent to keep Paxfire from conducting its business model.

Both of those satisfy the torts that have been alleged, and I think that they were filed in good faith. It is unusual, I will grant, that a class action plaintiff finds herself at the receiving end of counterclaims. But it is also unusual that the plaintiff either directly or through her attorneys is talking to the press and is talking to entities that have already arranged to publish allegations that are not true, some of which were actually retracted afterwards when I opened up Paxfire's personnel through conversations with EFF personnel.

So we have a situation here where there were false statements advanced, the repercussions were severe, and Paxfire

is entitled to seek damages. I think we have alleged all the necessary essential elements in two categories of torts, and the claims were filed in good faith.

THE COURT: I should point out, as I usually -- this is my first opportunity to talk to all of you. I know one or more people at Milberg and I think at Bingham McCutchen. I don't know any of the lawyers who are appearing before me, at least so far as I know. Nothing about that affects anything that I do in the case.

All right. Go ahead.

MR. GROSSO: That is all I have to say about those two motions.

I have gotten the message regarding motion practice, and I would offer that I will withdraw the motion to strike unless the Court is ready to rule on it.

THE COURT: Well, I was, but it's a wise withdrawal. Paragraphs 25 and 26?

MR. GROSSO: Yes.

THE COURT: All right. You know, it really shouldn't take the Court to point that out to lawyers about the proliferation of motions.

All right. Anything else?

MR. GROSSO: No, your Honor.

THE COURT: OK. I'm prepared to rule.

The plaintiff has moved to dismiss defendant Paxfire's

counterclaims. Defendant Paxfire has responded by seeking leave to amend the counterclaims. Defendant Paxfire's motion to amend the counterclaims is granted. The defendant Paxfire may file amended counterclaims by February 13, 2012, and the plaintiff may move or answer with respect to the counterclaims by February 27, 2012.

The motion by the plaintiff to dismiss the counterclaims is therefore denied as moot. The motion is directed at some claims that have been withdrawn and others that have been amended. Indeed, in response to the extensive motions, if defendant Paxfire finds that it should amend its counterclaims again before the counterclaims are actually filed, it should do so. If the plaintiff files a subsequent motion to dismiss the amended counterclaims, any counterclaims that are dismissed will be dismissed with prejudice. See, for example, Abu Dhabi Commercial Bank v. Morgan Stanley & Company, 08 Civ. 7508, 2009 WL 3346674 at 2, note 14 (S.D.N.Y. October 15, 2009), "A dismissal with prejudice is generally appropriate where a court puts a plaintiff on notice of a complaint's deficiencies and the plaintiff fails to correct those deficiencies after amendment."

The plaintiff has also filed a motion for Rule 11 sanctions directed to the original counterclaims. The plaintiff has made it clear that this motion is directed to the original counterclaims because those counterclaims are the

operative document until the Court allowed the amended counterclaims to be filed. The Court has now allowed amended counterclaims to be filed, and the original counterclaims are no longer the operative document.

It should also be noted that the Rule 11 motion goes far beyond the pleadings and asks the Court to make factual determinations on what the evidence in the case will show, such as whether the plaintiff acted with malice. There is an insufficient record to make such determinations at this point. Moreover, such determinations are better made on an evidentiary record after discovery. Therefore, the motion for Rule 11 sanctions is denied without prejudice to renewal against the amended counterclaims as such counterclaims are filed. The plaintiff may file a new Rule 11 demand on the defendant if amended counterclaims are filed.

Defendant Paxfire also filed a motion to strike paragraphs 25 to 27 of the plaintiff's complaint, pursuant to Federal Rule of Civil Procedure 12(f), on the grounds that the paragraphs are immaterial. Defendant Paxfire has now withdrawn that motion. Therefore, defendant Paxfire's motion to strike paragraphs 25 to 27 of the plaintiff's complaint is withdrawn.

Defendant Paxfire's motion to amend its counterclaims is granted. The plaintiff's motion to dismiss these counterclaims is denied without prejudice as moot.

The plaintiff's motion for Rule 11 sanctions is denied

without prejudice.

The clerk is directed to close docket number 7, 12, 23 and 24.

So ordered.

I received a proposed schedule for the case which provides for the close of fact discovery on June 29, 2012, the close of expert discovery on October 15, 2012, dispositive motions November 14, 2012, and the final replies on those motions December 28, 2012. The schedule is apparently agreed to by the parties and appears to be reasonable.

Does anyone want to be heard on it?

MR. NEGER: Yes your Honor, Peter Neger.

When we discussed the schedule yesterday, we did it on the basis of a number of days without actually assigning particular dates to the days. And when I received Mr. Dumain's letter this morning to your Honor, I noticed that the last date for reply to dispositive motions is December 28.

THE COURT: I thought that was very big of you all.

MR. NEGER: Foolish, perhaps, your Honor. I wonder if the parties and your Honor would agree to extend the date by a couple of weeks so that we don't have to all toil over the Christmas holiday.

THE COURT: Yes, sure.

MR. DUMAIN: I noticed that, too, your Honor. I'm glad defendants brought that up. Thank you.

How about January 8? That's a Tuesday. 1 THE COURT: 2 MR. NEGER: Could I suggest the end of that week, your 3 Honor? 4 THE COURT: Yes. January 11. 5 Does anyone else want to be heard on the order? 6 Otherwise I'm prepared to enter it as the scheduling order. 7 I take it that you have all had your Rule 26(f) conference, you discussed issues of what discovery is going to 8 9 occur in the case, how you're going to deal with the issues of 10 electronically stored information and the like. 11 MR. DUMAIN: We have, your Honor. There are more 12 discussions that need to take place, but we have had initial 13 discussions and I'm confident that we can work things out. 14 THE COURT: OK. I don't generally refer cases to the 15 magistrate judge unless there is some reason for me to do it. I like to keep track of the case so that if there are disputes, 16 17 you bring them to me in the first instance and I will try and 18 determine who is being reasonable and who is being 19 unreasonable, and oftentimes that deters disputes from 20 developing. Anything else anyone wants to bring to my attention? 21 22 Before making a dispositive motion, you have to ask 23 for a premotion conference. Under my rules these days, before

making a motion to dismiss you have to ask for a premotion

conference. But you have already had a premotion conference.

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If there's going to be a motion to dismiss the counterclaims, if amended counterclaims are filed, and if the plaintiff wishes to make a motion to dismiss the amended counterclaims, you don't need another premotion conference for that.

All right. Anything else?

MR. GROSSO: May I bring it to the Court's attention, as long as we're talking about motions to dismiss, I may be filing a motion for judgment on the pleadings with regard to the first count of plaintiff's complaint. I assume that would fall under the premotion conference rule.

THE COURT: Yes. Before making that motion, you have to ask for a conference. You should, before making that motion, asking for a conference, you should at least have a discussion with the plaintiff as to what the basis for the motion is. Motion for judgment on the pleadings, you ask me to determine as a matter of law the first count in the complaint, together with the answer, fails as a matter of law. You all are sophisticated lawyers. Is the first count directed also at RCN?

MR. NEGER: Yes, your Honor.

THE COURT: I haven't heard from RCN that they intend to file a motion for judgment on the pleadings with respect to count one. Motion for judgment on the pleadings asks me to accept the facts as undisputed. If, after thinking about it, you are going to make such a motion, ask for a premotion

conference. OK.

MR. NEGER: I don't want my silence to be taken as acquiescence that we think that any of the counts in the complaint are properly framed as against RCM, your Honor. I think that we would like to just go through discovery as quickly as possible and then it's our intention to make a motion for summary judgment on the whole complaint.

THE COURT: OK. I didn't take your silence as either supporting or undermining the motion, I was just wanting to find out where the parties stood.

OK. Anything else?

MR. GROSSO: There is one count that is somewhat troublesome in that I'm confused as to whether Paxfire's named in it. Forgive me, I wasn't planning on raising it.

THE COURT: It's OK.

MR. GROSSO: I believe it's count three, but perhaps
Mr. Dumain can correct me if I'm wrong. The caption is
directed only against RCM, but the charging language is phrased
"defendants." Since there are only two defendants in the case,
I assume that Paxfire is one of them. In my communications
with Mr. Seidman, I had been told that Paxfire is not a
defendant in that count. I would like for them to clarify it,
and perhaps withdraw it if we're not a defendant.

MR. DUMAIN: I don't understand the dispute, your Honor. He asked us, we told him Paxfire is not a defendant, as

he just said. That's the fact, Paxfire is not a defendant in count three. THE COURT: OK. That's clear on the record. If you want to confirm it in a letter, you can, but it's clear on the record. MR. DUMAIN: He already has a letter from us, your Honor, saying that. THE COURT: OK. Anything else? OK. Good afternoon all. MR. NEGER: Thank you, your Honor.